Reaching into the future

Halterm 2000 Annual Report

Halterm 2000 Annual Report

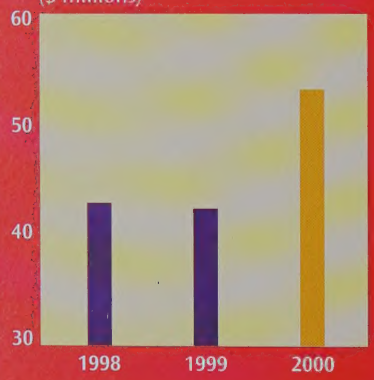
Corporate Profile

Halterm Limited, Canada's largest east coast container terminal operator, is located on a 70-acre site in the Port of Halifax, Nova Scotia. With deep water berths and six ship-to-shore gantry cranes, Halterm can accommodate up to three, fourth-generation container vessels.

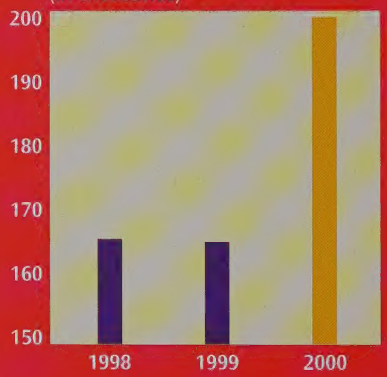
The terminal provides the logistical link between domestic and international ocean-going vessels, and the rail and truck transportation systems, which connect the Port to major markets in Canada and the US Midwest.

The Port of Halifax is located within one hour of the Great Circle route, the shortest shipping route between Europe and North America. Halterm began its operation in 1969, one of the first container terminals on the East Coast of North America. It is located at the mouth of Halifax harbour, the deepest, ice-free port on the eastern seaboard of North America.

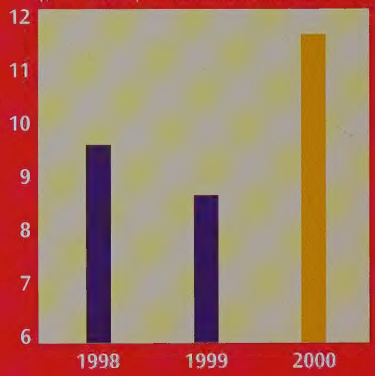
REVENUE
($ millions)



CONTAINERS HANDLED
(in thousands)



INCOME before interest, depreciation, amortization, and taxes
($ millions)



Contents

It's been an eventful year...

Pat Morin, President of Halterm, celebrates reaching the 20-year lease agreement with David Bellefontaine, President and CEO, Halifax Port Authority.

The post-Panamax cranes arrive in Halifax Harbour aboard the Zen Hua from China, after more than 60 days at sea.

- **Post-Panamax cranes commissioned July 23, 2000**
- **20-year lease agreement reached with the Halifax Port Authority**
- **Container volume increased 20% over 1999**
- **Record revenues and earnings achieved**

Message from the President

The year 2000 was an exceptional one for Halterm. Record revenues and earnings were achieved, two new post-Panamax cranes were installed, and a 20-year land lease extension was secured. The stage is now set for continued, profitable growth.

A financial snapshot of 2000 clearly reflects a year of record-setting growth. Earnings before the one time write-off of lease renewal costs were up 32 per cent for the year. This earnings gain was mostly driven by a significant increase in container volume – up 20 per cent to almost 200,000 lifts in 2000.

We are pleased that, after an arduous process, the Halifax Port Authority (HPA) and Halterm agreed on a 20-year lease renewal. This allows us to turn our attention back to planning for the future with a secure, long-term horizon.

Halterm is fully committed to helping the Port of Halifax grow. Its 30 year history of success in the Port reflects this commitment.

In anticipation of future demand, Halterm has invested more than $20 million in two new post-Panamax cranes and back-up yard equipment. This investment has helped position Halifax as the Port best able to handle post-Panamax sized vessels on the East Coast of North America.

By the year 2010, post-Panamax vessels are expected to account for 35 per cent of container shipping capacity worldwide. Halterm is ready.

Over the next three to five years, we expect to be handling post-Panamax vessels using the North Atlantic trade route, and intend to capitalize on increased transshipment opportunities. In the meantime, Halterm's new cranes will be working full-time, improving our existing container handling efficiencies.

As a result of these investments, Halterm is in its best position ever to provide existing and potential customers with the level of service they need and expect. In 2000, we conducted an evaluation of our terminal operating system with the objective of transforming Halterm to a state-of-the-art container handling facility.

Customers will benefit in 2001 from service improvements across the board with the introduction of a new container handling and information system. This system is designed to speed the flow of our operation, increase our capacity, and provide for the seamless electronic transfer of information in real time.

The Halifax Port Authority is projecting a sustained growth rate of 7 per cent for container volume in the Port. With renewed stability and readiness for growth, Halterm is in a good position to continue to meet unitholder expectations.

“Halterm is in its best position ever to provide existing and potential customers with the level of service they need and expect.” Pat Morin, President, Halterm


far left: The new cranes have the capability to handle two 20 foot containers simultaneously. *left:* Double-stacked rail cars destined for the US Midwest.

As the largest and longest-tenured container terminal in the port, we are in an excellent competitive position. CN's rail infrastructure has helped to open the burgeoning US Midwest market to shippers using the Halifax gateway. This business increased 30 per cent in 2000 and we fully expect continued growth in this market.

These factors, in addition to the Port of Halifax's favorable geographic location (one hour from the Great Circle Route, and first-in/last-out port of call), bolster Halterm's strategic advantage going forward.

A low-cost operation and high level of service will enable us to translate these opportunities into top and bottom line growth.

Halterm has always recognized and valued its employees as the people who actually get the job done. We owe our success to them and thank them for their hard work, their attention to customer service, and their willingness to go that extra mile.

This makes it even more difficult to report a tragic accident in November, 2000 which resulted in the untimely loss of our colleague and friend, Chris Dempsey. Chris was a valued member of our workforce and he will be missed.

With the achievement of a 20-year agreement with the Halifax Port Authority and 20 per cent growth, the year 2000 was certainly exceptional.

As we enter 2001, we continue to focus on building a bright future and invest in our quest to make Halterm the container terminal of choice on the East Coast of North America.

P.R.

Patrick Morin
President, Halterm Limited

Report on Operations

Renewed stability positions Halterm for future growth

Halterm's business grew more stable in 2000, as a result of a number of factors. First among them was an agreement reached with the Halifax Port Authority (HPA) on September 12, 2000, to extend Halterm's terminal lease in the Port of Halifax for another 20 years. The agreement, which provides Halterm with a lease until the year 2020, gives Halterm a stable, long-term business-planning horizon and allows us to focus our efforts on growing the business.

Our long-standing relationships with our customers have always been a source of stability and growth for our operation, and 2000 was no exception. Growth from existing customers contributed to the 20 per cent increase in volume achieved.

We continue to focus on providing superior cost-effective performance, which, in our customers' terms, means safely loading and unloading their containers as quickly and efficiently as possible.

Another key contributor to the underlying resilience of Halterm is our workforce; one of the company's strongest assets. Our employees are the backbone of our business. Seasoned veterans combined with younger well-trained employees have contributed greatly to our success over the years. Volume growth in 2000 contributed to an expansion of our workforce.

Halterm's increase in volume in 2000 resulted from a combination of factors:

- *A 30 per cent year-over-year increase in Midwest business*
- *New business from Italy-based Costa Container Lines and Mediterranean Shipping Company*
- *Increased business from existing customers*

2000 was a year marked by investment

When management made the decision two years ago to invest in two new post-Panamax cranes, it was as an investment in our future. Recognizing that an increasing number of post-Panamax ships are joining the world's shipping fleet, we wanted to begin positioning Halterm as the post-Panamax terminal of choice on the East Coast of North America.

Halterm's total investment amounted to $20.5 million, which also included two state-of-the-art rubber-tired yard gantry cranes and other terminal support equipment.

The new cranes can reach across the deck of a vessel 22 containers wide. This compares to our previous capacity of working vessels with containers up to only 13 wide on deck.

Equally important is the height and speed of the new cranes. Containers stacked up to 7 high on deck can be worked at cycle times up to 50 per cent faster than previously possible. The added height is critical as most vessels are stowing higher loads on deck to maximize their carrying capacity.

With the addition of the two post-Panamax cranes, Halterm now has six cranes, giving us the capability to simultaneously handle more vessels, more efficiently. They contributed greatly to our ability to handle the increase in volume in 2000 and provide the flexibility to pursue new growth opportunities in the future.

In 2001, we expect to achieve increased operating efficiencies as a result of our investment in new technology. At the same time, we continue to place the highest priority on servicing our existing customers.

“Our new information system will enable Halterm to grow to the next level. It will ensure that the company remains competitive and provides a superior level of service to its customers.”

opposite page: Halterm at work.
left: The Great Circle Route, highlighting the pivotal positioning of Halterm.

Halterm's Competitive Advantage

Our Location

The Port of Halifax is located one hour off of the Great Circle Route and is the deepest, ice-free port on the East Coast of North America providing Halterm with significant, competitive advantages:

- All cargo leaving Northern Europe destined for the East Coast of North America must pass within one hour of the Port which makes Halterm the first stop among all East Coast Ports and conversely, the last port of call.
- *First-in, last-out* service offers shippers significant operational flexibility.
- Large ships destined for the Port of New York, which is unable to accommodate larger ships when fully loaded, are able to load/unload the Midwest portion of their cargo at Halterm.

Among Halterm's other competitive advantages:

- The lowest-cost terminal on the East Coast of North America
- Post-Panamax capability
- Seamless double-stacked rail service to the US Midwest and beyond
- New, advanced information system capability

Investing for the Future

In 2001, Halterm will make a significant investment in the implementation of leading edge software that will completely modernize its container handling operation, and enable us to better meet our customers' objectives.

Halterm's new system will allow us to:

- plan container moves that optimize the utilization of terminal space
- communicate container moves in real time
- electronically transfer information to our customers and the railway
- provide web-based customer access to operational data

Resulting in:

- improved customer communications and performance
- increased vessel productivity
- increased terminal productivity
- more efficient equipment utilization
- improved customer communication and service
- increased capacity

Management Discussion and Analysis

The Halterm Income Fund (The "Fund") is a limited purpose trust. The Fund's income is derived from its wholly-owned subsidiary Halterm Limited ("Halterm"). Distributions to unitholders are based on Halterm's ability to generate cash flow to pay interest on a $59 million, 12 per cent unsecured subordinated note and dividends or return on capital of common shares of Halterm. Halterm's operating cash flow is largely determined by the volume of containers handled, the efficiency in which the containers are handled, and rates charged to customers for various container handling services. Halterm is well-positioned for continued growth due in large part to the natural attributes of the Port of Halifax, a stable workforce and the commissioning of two new post-Panamax cranes in July 2000.

Consolidated Operating Results

In 2000, container volume rose by 20 per cent to 198,934 moves compared to 165,519 in 1999. Total revenue, which is mainly driven by container throughput, increased by 25 per cent to $52,863,000 compared to $42,264,000 in 1999. In 2000, roll on/roll off (ro/ro) revenue stabilized at $2,798,000 compared to $2,632,000 in 1999.

In 2000, a one-time cost of $1,907,000 incurred in order to reach a 20 year rental agreement with the Halifax Port Authority (HPA) was written off. Net income for the year before the one-time charge, was $7,536,000, up 32 per cent compared with net income of $5,708,000 in 1999. The 1999 comparative figures have been restated to reflect the implementation of the new liability method of tax allocation as required by the Canadian Institute of Charted Accountants. The effect of adopting the new recommendation was to increase net income by $586,000 for the year ended 1999, and to decrease unitholders' equity by $614,000 as at January 1, 1999.

Distribution

Consistent with the Fund's distribution policy, distributions for the year 2000 equaled those paid in 1997, 1998 and 1999. Quarterly cash distributions of $1,967,000 ($0.2437 per unit) were declared totaling $7,868,000 ($0.9748 per unit) for 2001. These distributions were 83.46 per cent taxable with the remaining 16.54 per cent being a return of capital.

Record Date	Payment Date	Taxable Portion	Return of Capital	Total Distribution
March 31, 2000	April 15, 2000	$0.2034	$0.0403	$0.2437
June 30, 2000	July 15, 2000	$0.2034	$0.0403	$0.2437
Sept 30, 2000	October 15, 2000	$0.2034	$0.0403	$0.2437
December 31, 2000	January 15, 2001	$0.2034	$0.0403	$0.2437

Liquidity and Capital Resources

Halterm's capital expenditure requirements are comprised of sustaining and expansionary capital. Sustaining capital expenditures are required to maintain the terminal at its current throughput capacity. The amount of sustaining capital expenditures estimated in the prospectus was on average $850,000 annually to maintain a throughput of 150,000 containers. Container volume has grown by approximately 30 per cent, since the prospectus, and as such the amount of sustaining capital required to maintain the terminal at the new volume will increase proportionately. Expansionary capital expenditures are investments, which are required to increase capacity and/or improve efficiency. Expansionary capital expenditures will be made only if, in the opinion of the Board of Directors of Halterm, they are expected to result in improved per unit distributions to Unitholders.

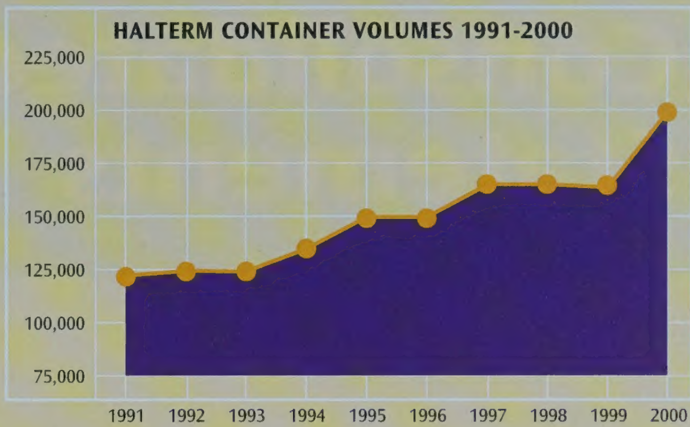
In 2000, the Board approved an expansionary expenditure of $3,100,000 for new operating software. The software acquisition will be financed through a combination of debt and working capital. Total capital expenditures of $11,418,000 were made during the year.

Including borrowings under its $4 million operating facility, Halterm has the discretion to borrow up to $10 million per year subject to an aggregate maximum equal to the greater of (i) $15 million, and (ii) two times Halterm's earnings before interest, taxes, depreciation and amortization for the most recently completed fiscal year. Any borrowings over and above these amounts require the unanimous approval of Halterm's Board of Directors. In 2000, Halterm installed two new post-Panamax cranes and back-up terminal equipment. Total advances against the $22,850,000 financing facility are $18,898,000.

Risks & Opportunities

Halterm has a very narrow customer base, which is common within the container terminal industry. In 2000, four customers represented 84 per cent of the terminal's overall volume. If the volume from these customers were to vary materially, it would affect Halterm's financial performance. As a result of the quality of its customers and long-standing relationships with these customers, we believe exposure to this risk is minimal.

The shipping industry can be influenced by changes in global economic conditions; however, during the last economic slow down, Halterm's volume was not adversely affected. The Company believes that the Port of Halifax and Halterm are well positioned to capitalize on the potential for significantly increased container volume as the trend towards larger and larger vessels emerges. Deep water, proximity to major shipping trade routes and efficient inland rail links with Toronto, Montreal and particularly the US Midwest market, are significant competitive advantages for Halifax and Halterm.



Costa Container Lines, a new customer in 2000, introduced an additional vessel into their service, and increased the frequency of their call from every 14 days to every 10 days. This is expected to lead to an increase in their container handlings at Halterm.

The terminal is nearing its design capacity; however, there are several projects which can be undertaken to increase the capacity of the terminal. If container volume continues to grow at rates which we have experienced over the past five years, further capital expenditures may be required.

New operating software, previously discussed, will increase the effective capacity of the terminal by improving space utilization, which will lead to further improvements in vessel and terminal productivity. It will also improve the overall level of service Halterm is able to provide to its customers.

Highlighting the year was the 20-year agreement reached between the Company and the HPA for the renewal of its lease. The long-term nature of this agreement provides Halterm with a stable, long-term planning horizon. The three-year phase-in of rental increases is expected to provide Halterm with the ability to maintain stable distributions in the future. The estimated minimum aggregate annual payments will not exceed 10 per cent of annual revenues over the next 5 years.

Auditors' Report & Consolidated Financial Statements

Auditors' Report

To the Unitholders of **Halterm Income Fund**

We have audited the consolidated balance sheets of **Halterm Income Fund** (the "Fund") as at December 31, 2000 and 1999 and the consolidated statements of income and unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Halifax, Canada
January 19, 2001

Ernst & Young LLP
Chartered Accountants

HALTERM INCOME FUND

As at December 31

Consolidated Balance Sheets

(in thousands of dollars)	**2000**	1999 [Restated – see note 2]
Assets (note 4)		
Current assets		
Cash	$ **2,315**	$ 834
Accounts receivable	**9,175**	6,200
Inventories	**852**	403
Prepaid expenses	**540**	481
Total current assets	**12,882**	7,918
Property and equipment (note 3)	**27,372**	18,459
Deferred charges	**—**	263
Goodwill, net of amortization of $5,602 (1999 – $3,998)	**57,573**	59,177
	$ **97,827**	$ 85,817
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ **4,495**	$ 4,714
Distribution payable	**1,967**	1,967
Total current liabilities	**6,462**	6,681
Long-term debt (note 4)	**18,898**	3,610
Future income tax liability (note 8)	**4,925**	5,745
Unitholders' equity (note 5)	**67,542**	69,781
	$ **97,827**	$ 85,817

Commitments (note 6)

See accompanying notes to financial statements

On behalf of the Trustees:

R. O. Mitchell

R. Owen Mitchell
Trustee

Hon. David R. Peterson
Trustee

HALTERM INCOME FUND

For the year ended December 31

Consolidated Statements of Income and Unitholders' Equity

(in thousands of dollars, except where indicated)	2000	1999 [Restated – see note 2]
Number of containers handled	198,934	165,519
Revenue	$ 52,863	$ 42,264
Operating and administrative costs (note 7)	41,177	33,471
Income before interest, depreciation and amortization	11,686	8,793
Interest	657	—
Depreciation	2,505	2,096
Amortization	1,604	1,583
Income before undernoted items	6,920	5,114
Lease renewal costs (note 6)	1,907	—
Income before income taxes	5,013	5,114
Income tax recovery (note 8)	616	594
Net income	$ 5,629	$ 5,708
Unitholders' equity, beginning of year, as previously reported	$ 69,809	$ 72,555
Adjustment related to future income taxes (note 2)	(28)	(614)
Unitholders' equity, beginning of year, as restated	69,781	71,941
Distributions to unitholders	(7,868)	(7,868)
Unitholders' equity, end of year	$ 67,542	$ 69,781
Earnings per trust unit	$ 0.70	$ 0.71

See accompanying notes to financial statements

HALTERM INCOME FUND

For the year ended December 31

Consolidated Statements of Cash Flows

(in thousands of dollars)

	2000	1999 [Restated – see note 2]
Operating Activities		
Net income	$ 5,629	$ 5,708
Items not involving cash		
Depreciation and amortization	4,109	3,679
Future income taxes	(820)	(740)
	8,918	8,647
Change in non-cash working capital relating to operating activities	(3,702)	(638)
Cash provided by operating activities	5,216	8,009
Financing Activities		
Proceeds from long-term debt	15,288	3,610
Distributions to unitholders	(7,868)	(7,868)
Cash provided by (used in) financing activities	7,420	(4,258)
Investing Activities		
Acquisition of property and equipment	(11,418)	(5,514)
Deferred charges	263	(263)
Other	—	(123)
Cash used in investing activities	(11,155)	(5,900)
Increase (decrease) in cash during the year	1,481	(2,149)
Cash, beginning of year	834	2,983
Cash, end of year	$ 2,315	$ 834
Supplementary cash flow disclosure		
Income taxes paid (note 8)	$ 204	$ 146
Interest paid	593	—

See accompanying notes to financial statements

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

(a) Organization and basis of presentation

Halterm Income Fund (the "Fund") is a limited purpose trust established under the laws of the Province of Nova Scotia by a Declaration of Trust (note 5) made as of March 25, 1997. The Fund was established with initial capital of $10 to acquire and hold 100 per cent of the class A and class B common shares and 12 per cent unsecured, subordinated promissory notes of Halterm Limited which, in turn, acquired the container terminal business formerly operated by Halterm Limited Partnership on May 13, 1997. These consolidated financial statements reflect the operations of the container terminal business since the date of acquisition.

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Halterm Limited.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The preparation of these statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Any variations between these estimates and actual amounts are not expected to materially affect reported results. The more significant accounting policies are as follows:

(b) Depreciation of property and equipment

Property and equipment are depreciated over their estimated useful lives on the following bases:

Gantry cranes	Straight-line over 15 years
Other equipment	Straight-line over 5-12 years
Leasehold improvements	Straight-line over the respective lease terms

(c) Inventories

Materials and supplies inventories are valued at the lower of cost and net realizable value.

(d) Amortization of goodwill

On the acquisition of businesses, goodwill is recognized to the extent of the excess of the purchase price over the fair value of the underlying net identifiable assets acquired. Goodwill is amortized on a straight-line basis over 40 years. The method used to assess if there has been a permanent impairment in the value of goodwill is based on projected cash flows.

(e) Financial instruments

The carrying values of the Fund's primary financial instruments approximate fair values due to the short-term nature and/or repayment terms of these instruments.

At any given time, the Fund has commitments to provide credit to its customers. Due to the nature of its business, accounts receivable are due from a small number of customers concentrated in the marine transportation industry. During 2000, four customers accounted for approximately $44,231,000 or 84 per cent of total revenues (1999 – $38,502,000 or 91 per cent). As a result of the quality of its customers and long-standing and contractual relationships with Halterm, the management of the Fund believes that its exposure to credit risk is not unusual.

(f) Employee benefit plans

Halterm has defined contribution pension plans covering its employees. Contributions to the defined contribution pension plans are expensed as incurred.

(g) Employee unit purchase plan

Halterm has an employee unit purchase plan where employees may purchase trust units of the Fund. The Fund's contributions to the employee unit purchase plan are expensed as incurred.

(h) Income taxes

Effective January 1, 2000 the Fund adopted the liability method of accounting for income taxes (see note 2). Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the tax rates substantially enacted at the balance sheet date.

2. Change in accounting policy

The Canadian Institute of Chartered Accountants has issued a new accounting standard with respect to future income taxes, which has been adopted by the Fund effective January 1, 2000. This change, from the deferral method to the liability method, has been applied retroactively and the Fund's financial statements for 1999 have been restated accordingly. The effect of adopting the new recommendations was to increase net income by $586,000 for the year ended 1999 and to decrease unitholders' equity by $614,000 as at January 1, 1999.

Notes to the Consolidated Financial Statements

3. Property and equipment

(in thousands of dollars)	Gantry cranes	Other equipment	Leasehold improvements	2000 Total
Cost	$ 21,924	$ 12,864	$ 400	$ 35,188
Accumulated depreciation	3,292	4,143	381	7,816
Net book value	$ 18,632	$ 8,721	$ 19	$ 27,372

(in thousands of dollars)	Gantry cranes	Other equipment	Leasehold improvements	1999 Total
Cost	$ 13,449	$ 8,941	$ 1,322	$ 23,712
Accumulated depreciation	2,127	2,850	276	5,253
Net book value	$ 11,322	$ 6,091	$ 1,046	$ 18,459

4. Long-term debt

(tabular amounts in thousands of dollars)	2000	1999
Equipment loan with interest at the lender's base rate plus 1.75%. Repayable in 167 monthly principal installments of $124,000 beginning twelve months after the final principal disbursement, followed by 1 final installment of $142,000.	$18,898	$ 3,610

The lender's base rate as at December 31, 2000 was 6.27% (1999 – 5.56%). As collateral for the equipment financing, the Fund has provided a first charge on equipment now owned as well as equipment to be purchased and financed, a first floating charge on certain other assets, and priority payment over the promissory notes from Halterm Limited (note 5).

Principal payments required annually over the next five years are as follows (in thousands of dollars):

2001	$ —
2002	1,116
2003	1,488
2004	1,488
2005	1,488

5. Unitholders' equity

An unlimited number of trust units may be issued pursuant to the Declaration of Trust. Each trust unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All trust units are of the same class with equal rights and privileges. Each trust unit carries one vote and is not subject to future calls or assessments.

Trust units are redeemable at the unitholder's option at 95 per cent of market price at the time subject to an aggregate maximum of $40,000 in cash redemptions in any particular calendar month. Redemptions in excess of this amount will be satisfied by distributing to the unitholder a pro rata share (approximately $7.31 principal amount per trust unit) of the $59,000,000, 12 per cent unsecured, promissory notes of Halterm Limited, maturing in 2012, that are presently owned by the Fund.

At December 31, 2000, the Fund had 8,072,850 (1999 – 8,072,850) trust units outstanding.

6. Commitments

The Fund has established a $4,000,000 demand operating line of credit and a $1,300,000 standby letter of credit. A general assignment of book debts has been pledged as collateral for these credit facilities.

The Fund entered into a contract on March 12, 1999 to purchase two post-Panamax cranes for $11,600,000 USD. At December 31, 2000, $2,320,000 USD of the obligation is outstanding.

The Fund has entered into a long-term debt agreement to borrow an additional $3,952,000 to complete its purchase of the two post-Panamax cranes. The remaining amount is anticipated to be withdrawn on or before March 15, 2001.

The Fund entered into a contract on December 21, 2000 to purchase operating software. Management estimates total expenditures of $2,800,000 in 2001 for installation, training and project management costs.

The Fund incurred various costs leading to the renegotiation of its agreement for the rental of its container terminal site and buildings. These costs totaling $1,907,000 have been expensed in the current year. The Fund has an obligation under the agreement to December, 2020. The estimated minimum aggregate payments required during the term of the agreement is approximately $130 million. Under the terms of the agreement, the Fund is obligated not to disclose the amount of its annual payments. The estimated minimum aggregate annual payments will not exceed 10 per cent of annual revenues over the next five years.

7. Related party transactions

The Fund has entered into a management agreement with companies having representation on the Board of Directors of Halterm Limited (collectively, the "Managers") to provide Halterm Limited with executive management and other services. The initial term of the agreement is 15 years. The agreement provides for an annual base fee of $200,000 as well as reimbursement of the Managers' reasonable out-of-pocket expenses. During the year, management fees and reimbursements totaling $200,000 (1999 - $200,000) were paid or payable to the Managers. In addition, as an incentive to the Managers to enhance the cash distributed to unitholders, the Managers are entitled to earn incentive fees payable annually when the cash distributed to unitholders exceeds certain defined levels. No such incentive fees were payable in respect of 2000 and 1999.

During the year, the Fund also paid the Managers $36,000 (1999 – $36,000) for the purchase of electronic data processing and payroll administration services.

Notes to the Consolidated Financial Statements

8. Income taxes

Temporary differences and carry forwards which give rise to the future income tax liability are as follows:

	2000	1999
(in thousands of dollars)		
Future income tax liabilities (assets)		
Property and equipment	$ 3,756	$ 4,163
Goodwill	4,481	5,110
Issue costs and other	(358)	(515)
Tax loss carry forwards	(2,954)	(3,013)
	$ 4,925	$ 5,745

The Fund's provision for income taxes is comprised as follows:

	2000	1999
(in thousands of dollars)		
Income before income taxes	$ 5,013	$ 5,114
Combined federal and provincial statutory income tax rate	44%	45%
Income tax expense calculated at statutory rates	2,206	2,301
Adjustments to taxes resulting from:		
Deductible portion of distributions to unitholders	(3,121)	(3,175)
Federal capital tax	204	146
Non-deductible expenses	196	131
Impact of rate change on opening balance	(112)	—
Other	11	3
Income tax recovery	$ (616)	$ (594)

9. Employee benefits

During the year, the Fund contributed $68,572 (1999 - $65,839) to its defined contribution pension plans.

10. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Board of Directors & Corporate Information

Halterm Limited Directors

James Foote (2)
Chair, Halterm
Executive Vice President
Sales and Marketing
Canadian National Railway
Chicago, Illinois

Sean Finn (2)
Senior Vice President
Chief Legal Officer and
Corporate Secretary
Canadian National Railway
Montreal, Quebec

Dale Godsoe (1)
Vice-President External
Dalhousie University
Halifax, Nova Scotia

Darell Hornby (2)
President & Chief Operating Officer
Clarke Inc.
Mississauga, Ontario

James Powell (2)
Assistant Vice President
International Intermodal
Canadian National Railway
Toronto, Ontario

Roy Rideout (2)
Chairman & Chief Executive Officer
Clarke Inc.
Bedford, Nova Scotia

Harry Steele (2)
Chairman & Chief Executive Officer
Newfoundland Capital Corporation
Dartmouth, Nova Scotia

(1) Independent director of Halterm appointed by the Fund.
(2) Nominee of the Managers.

Halterm Limited Officers

Patrick Morin
President

Douglas Rose
Vice President & General Manager Operations

Michael Uberoi
Chief Financial Officer

Halterm Income Fund Trustees

Brian A. Doherty,
Consultant
Dartmouth, Nova Scotia

R. Owen Mitchell
Consultant
Toronto, Ontario

Hon. David R. Peterson
Barrister & Solicitor
Toronto, Ontario

Audit Committee

Dale Godsoe, *Chair*
Sean Finn
Roy Rideout

Executive Committee

James Foote
Roy Rideout

Transfer Agent

Computershare Trust Company
1465 Brenton Street
Halifax, Nova Scotia
B3J 3S9

Bankers

CIBC
1809 Barrington Street
Halifax, Nova Scotia
B3J 3A3

Auditors

Ernst & Young LLP
1959 Upper Water Street
Halifax, Nova Scotia
B3J 2S1

Annual Meeting

The Annual General Meeting of unitholders will be held May 11, 2001 in Halifax, Nova Scotia at 2:00pm at the Delta Halifax.

Financial Calendar

The Company's year end is December 31. Quarterly reports are mailed in May, August and November.

Stock Exchange Listings

Toronto Stock Exchange
Symbol: HAL.UN

Investor Relations Information

Michael Uberoi
tel (902) 421-1778
fax (902) 429-3193

DESIGN AND PRODUCTION: ARTWORKS; PHOTOGRAPHY: PHOTOGRAPHY: JOHN SHERLOCK PHOTOGRAPHY; IMAGE DIGITIZATION: MARITIME DIGITAL IMAGING; FILM AND PRINTING: PRINT ATLANTIC LIMITED

Halterm Income Fund P.O. Box 1057 Halifax, Nova Scotia B3J 2X1 Canada

tel (902) 421-1778 fax (902) 429-3193